

March 27, 2009

Thank you for taking the time to e-mail me your opinion on the Michigan film credit. I think it is appropriate to provide you with background and rationale on Senate Bills 404 and 405.

A year ago, the legislative package establishing the film credit was signed into law by Governor Granholm, creating the largest film incentive in the nation. I supported all of the bills in this 14-bill incentive package, except for one. The 13 bills I supported would provide a credit for infrastructure and job training expenditures, create the Michigan Film Office, authorize the use of public property without charge for film production, create three loan programs, and allow for a possible income tax and investment credit and “high-technology activity” Michigan Economic Growth Authority credits.

I opposed House Bill 5841 (Public Act 77 of 2008), which provides for a 40-42% refundable credit on production expenditures. A refundable credit allows a production company to eliminate its tax liability and pay no taxes, while receiving the remainder of the credit as a check from the state’s general fund. When the bills were passed, the nonpartisan Senate Fiscal Agency stated that, “The bills will decrease State revenue, mostly to the General Fund, by an unknown and potentially significant amount.”<sup>1</sup>

Over the course of the last year, new information has come to light about Michigan’s economy and how the film credits are working. Michigan has experienced the worst unemployment in the nation at 12 percent<sup>2</sup> and a deepening economic recession. The Michigan state government faces a \$1.5 billion budget deficit in the coming fiscal year.<sup>3</sup> Also, during January and February the state received \$200 million less in revenue than it had expected.<sup>4</sup> And on top of all of this, the uncapped refundable Michigan film credit continues to expend funds from an ever-shrinking revenue source, adding to the growing deficit and creating very few sustainable jobs.

A recent report required by law, which Michigan State University compiled for the Michigan Film Office, shows that 32 film productions occurred in Michigan during the credit’s first nine months at a cost of \$48 million to the state general fund.<sup>5</sup> The Michigan Department of Treasury and the nonpartisan Senate and House Fiscal Agencies have estimated that the film credit could cost the general fund \$100 million for the full 2009 fiscal year and \$150 million in fiscal year 2010.<sup>6</sup> The report

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<sup>1</sup> <http://www.legislature.mi.gov/documents/2007-2008/billanalysis/Senate/pdf/2007-SFA-5841-F.pdf>

<sup>2</sup> <http://www.bls.gov/news.release/laus.nr0.htm>

<sup>3</sup> <http://www.senate.michigan.gov/sfa/Publications/BudUpdates/YearEndBalance.pdf>

<sup>4</sup> <http://www.senate.michigan.gov/sfa/Publications/MonthRev/mrrfeb09.pdf>

<sup>5</sup> [http://www.michigan.gov/documents/filmoffice/MSU\\_Economic\\_Impact\\_Study\\_269263\\_7.pdf](http://www.michigan.gov/documents/filmoffice/MSU_Economic_Impact_Study_269263_7.pdf)

<sup>6</sup> January 2009 Revenue Estimating Conference

also states that the credits created 2,800 jobs. However, these jobs only lasted for an average of 23 days. According to the Senate Fiscal Agency (SFA), when the number is annualized the result is 254 jobs.<sup>7</sup>

With the difficult economic times that Michigan faces, the increasing uncapped cost of the film credit jeopardizes other programs that the state provides to its citizens. Whether providing a safety net for our most vulnerable residents, keeping criminals behind bars, or funding schools and higher education, failure to put a reasonable cap on the film credit could take money from critical services.

Furthermore, without the cap the state cannot provide broad-based tax relief for all of Michigan's businesses. As chair of the Senate Finance Committee, I have heard from businesses being forced to close their doors due to the overwhelming burden of the Michigan Business Tax surcharge. Also, small businesses, which create 80% of Michigan's jobs,<sup>8</sup> have been forced to lay off employees or cancel expansion of their businesses.

Therefore, bipartisan bills have been introduced to "right-size" the film credit, while allowing Michigan to continue offering the most generous and competitive film incentives in the nation. Importantly, these bills expand the infrastructure credit from 25 percent to 30 percent, require that 90 percent of the employees on the production reside in Michigan, and apply the credit to the production of television commercials. Encouraging the construction of infrastructure in Michigan and expanding the credit to commercial production will help create more permanent jobs for Michigan residents. As with all legislation, these bills will be negotiated and may change as they advance through the legislative process.

Please visit my website ([www.senatornancycassis.com](http://www.senatornancycassis.com)) for more information on this issue and the many other initiatives I have sponsored. I have also attached a fact sheet with information on the bills and a list of articles for your review.

I value your input and thank you for your interest in this issue.

Sincerely,  
NANCY CASSIS  
State Senator, District 15  
Chair, Senate Finance Committee

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<sup>7</sup> SFA Memorandum, March 2009

<sup>8</sup> <http://www.sba.gov/advo/stats/sbfaq.pdf>

## **Michigan Film Credit Fact Sheet**

### **Senate Bill 404 (Gilbert) - Changes to the Production Film Credit**

- Reduces the film production credit to 35%, down from the current 40-42%
- Requires that 90% of the employees would need to be Michigan residents
- Expands the credit to apply to the production of commercials in Michigan
- Increases the credit for “below the line” employees, such as gaffers and grips, from the current 30% up to 35%
- Places an annual \$50 million cap on the credit
- No employee may receive more than \$1 million in compensation
- No individual project can claim a credit that exceeds \$9 million
- Adds transparency/reporting language

### **Senate Bill 405 (Cassis) – Changes to the Infrastructure Film Credit**

- Increases the film infrastructure credit to 30%, up from the current 25%
- Requires a minimum infrastructure investment of \$500,000 to qualify for the credit. Current law requires a minimum investment of \$250,000.
- Requires that 90% of the employees would need to be Michigan residents

### **Articles**

- Schrader: Taxpayers Are Paying For State’s Hollywood Moment – The Times Herald, April 3, 2009  
(<http://www.thetimesherald.com/article/20090403/OPINION02/904030319/1014/NLETTER01?source=nletter-news>)
- Study: Film Incentives Cost 20 Times More a Job Than Other State Programs – Wisconsin State Journal, March 30, 2009 (<http://www.madison.com/wsj/topstories/445101>)
- Shocking Lack of Transparency on Film Payouts – Livingston Daily, March 29, 2009  
(<http://www.livingstondaily.com/article/20090329/OPINION01/903290307/1014/rss03>)
- Michigan Movies are Taking Baby Steps - Detroit News, March 27, 2009  
(<http://www.detnews.com/apps/pbcs.dll/article?AID=2009903270355>)
- Officials Question Movie Report – Livingston Daily, March 25, 2009  
(<http://www.livingstondaily.com/apps/pbcs.dll/article?AID=2009903250303>)
- State Can’t Afford Hollywood Tax Break – Wisconsin State Journal, March 23, 2009  
(<http://www.madison.com/wsj/home/opinion/444196>)
- No Credit Required For Tax Credit Idea - Jackson Citizen Patriot, March 23, 2008  
([http://blog.mlive.com/bradosphere/2008/03/no\\_credit\\_required\\_for\\_tax\\_cre.html](http://blog.mlive.com/bradosphere/2008/03/no_credit_required_for_tax_cre.html))
- Film Office Report Violates Michigan Law And The Spirit Of Sunshine Week - Mackinac Center, March 19, 2009 (<http://www.mackinac.org/article.aspx?ID=10391>)
- No Accounting On How Film Dollars Are Being Spent - Livingston Daily, March 13, 2009  
(<http://www.livingstondaily.com/article/20090313/OPINION01/903130324>)
- Official Not Sold On Film Tax Incentive – Livingston Daily, March 4, 2009  
(<http://www.livingstondaily.com/article/20090304/NEWS01/903040309>)

- The Film Industry In New Mexico And The Provision Of Tax Incentives - Arrowhead Center, Office of Policy Analysis, New Mexico State University  
([http://www.nmlegis.gov/lcs/lfc/lfcdocs/film%20credit%20study%20TP&JP\\_08.pdf](http://www.nmlegis.gov/lcs/lfc/lfcdocs/film%20credit%20study%20TP&JP_08.pdf))